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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1941

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago, Illinois

BOARDS
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M3681

MRB
CORP. FILE

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

FREDERICK D. CORLEY
ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
HUGHSTON M. McBAIN
JAMES SIMPSON, JR.
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
FREDERICK D. CORLEY

First Vice-President
HUGHSTON M. McBAIN

Vice-Presidents
CHARLES C. BUNKER
WILBUR C. MUNNECKE
PERCY WILSON

Secretary and Treasurer
EARL KRIBBEN

Vice-President and Comptroller
JAMES L. PALMER

Assistant Secretary and Assistant Treasurer
GERALD A. SIVAGE

Assistant Comptroller
JOHN D. ANDERSEN

Assistant Comptroller
MILTON C. MUMFORD

General Counsel
MESSRS. WILSON & McILVAINE
CHICAGO

Public Accountants
MESSRS. ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

TO THE SHAREHOLDERS:

The Board of Directors submits this annual report for the year ended December 31, 1941.

Your Company's 1941 net profit, after interest and Federal taxes, was slightly less than in 1940. Net profit before interest and Federal income taxes, however, was substantially higher than in the previous year, while sales also showed a material increase. Comparative results for 1941 and 1940 were as follows:

	1941	1940	Increase
Net Profit Before Interest and Federal Income Taxes	$11,802,325	$8,416,031	$3,386,294
Deduct—			
Interest charges	$ 926,383	$1,043,050	$ *116,667**
Provision for Federal income taxes	5,390,000	1,680,000	3,710,000
Net Profit For Year	$ 5,485,942	$5,692,981	$ *207,039**
Provision for possible future decline in market value of inventories	800,000	—	800,000
Balance transferred to earned surplus	$ 4,685,942	$5,692,981	*$1,007,039**

**Decrease.*

After provision for present $900,000 preferred dividend requirements in each year, 1941 net profit was equivalent to $2.36 per Common Share as against $2.47 for 1940, on 1,943,763 Common Shares outstanding in both years. Net profit on the 150,000 preferred shares of both series outstanding was equivalent to $36.57 per share for 1941, as against $37.95 per share for 1940.

Merchandise sales and real estate income by quarters were as follows:

	1941	1940	% Increase
First Quarter	$21,592,560	$20,202,550	6.9%
Second Quarter	24,352,805	20,063,200	21.4%
Third Quarter	27,067,426	21,034,083	28.7%
Fourth Quarter	34,717,202	31,473,387	10.3%
Total for Year	$107,729,993	$92,773,220	16.1%

The net profit in each of the four quarters was as follows:

	As Adjusted*		As Previously Reported	
	1941	1940	1941	1940
First Quarter	$ 665,739	$ 804,538	$ 857,893	$ 854,405
Second Quarter	1,086,481	979,306	800,074	720,697
Third Quarter	1,564,422	1,137,504	1,098,167	848,974
Fourth Quarter	2,169,300	2,771,633	2,729,808	3,268,905
Total for Year	$5,485,942	$5,692,981	$5,485,942	$5,692,981

*These adjusted figures reflect the actual net profit by quarters. Net profit, except for the fourth quarter of 1941, has heretofore been reported as shown in the two right-hand columns. During the first three quarters of both years the Company charged taxes and other anticipated expenses against its operations in amounts which were necessarily based on estimates. In the light of information not available until later dates, these estimates proved to be at variance with the exact requirements. The adjustments made reflect the proper apportionment of such taxes and expenses by quarters.

RETAIL DIVISION

Our Retail Division consists of our Chicago store, three stores in suburbs of Chicago, Frederick & Nelson, Seattle, Washington, and two small stores, in Chicago Heights, Illinois, and Watertown, South Dakota.

The increased sales volume was almost entirely responsible for the fact that the 1941 operating profit of the Retail Division, before interest and Federal taxes, showed further improvement over that of the preceding year. The percentage of gross profit realized was satisfactory, but the ratio of operating expenses to sales increased. While the total number of sales transactions was the highest on record for the stores now operated, most of the increased sales volume resulted from a higher average sales check. This in turn was due to higher price levels and to the fact that many of the larger sales gains were made in lines of high unit-value, such as household furnishings.

In common with most stores, our retail units experienced rapidly rising operating costs during 1941. Payroll expense in particular was higher in relation to sales than in the preceding year, due in large measure to the higher average compensation paid to employes.

In addition to increased payroll expense, other operating costs were higher. Sharp rises in the prices of supplies and repair materials, and in certain taxes other than income taxes, made part of the higher expenses unavoidable. Additional warehousing costs were incurred to provide storage space for merchandise received earlier than usual, and a considerably increased expenditure for maintenance was required to preserve the operating efficiency of our facilities. In general, other expense increases were in line with the greater volume of business.

Inventories throughout the year were necessarily larger than at the corresponding dates a year before, because of the higher sales volume correctly anticipated and obtained. We avoided speculative overstocking of goods, which might have contributed to an upward spiraling of prices. We nevertheless found it necessary to anticipate our normal requirements in many staple lines by making heavier forward commitments than in recent years, in order to assure deliveries in time for seasonal needs.

Important physical improvements and betterments were made during the year in the various stores comprising the Retail Division. Numerous departments were remodelled, much of the lighting was modernized, and many other improvements were effected, with the result that at the year end the stores were in exceptionally good physical condition.

The restrictions on installment selling imposed to date by the Federal Reserve Board under authority given by the Executive Order dated August 9, 1941, have had practically no effect on the Company's operations. The Company does not anticipate that it will be put to competitive disadvantage by any further extension of such restrictions.

MANUFACTURING DIVISION

The Manufacturing Division's operating results, before interest and Federal taxes, showed a marked improvement in 1941 over those of previous years, largely as a result of the high rate of activity experienced in the textile industry during the year. All mills operated profitably.

The increased operating profit was largely the result of exceptional factors which may not recur. One was an average rate of operations during the year far above the mills' standard rate or normal expectation. Another was the advantage which accrued from rising raw material prices. Although this division followed the conservative policy of pur-

chasing only those raw materials necessary to cover its advance bookings of orders and current operating needs, it nevertheless benefited to some extent from favorable price movements. Such profits are apt to be illusory, and may well be erased in subsequent years when the trend of raw material prices is reversed.

We regard our future commitments for raw materials as being in no way excessive nor beyond reasonable requirements under present conditions.

Our merchandise deliveries for 1941 showed a very substantial increase over those of previous years, and the same situation prevailed in the orders we received. In the latter instance our unwillingness to book orders for delivery too far in advance exercised a restrictive influence. Despite this fact, unfilled orders on hand at the year end were approximately 45% higher than at the end of 1940, which in turn were approximately 13% greater than at the end of 1939.

During the year approximately 1500 houses in or near Spray, Draper and Leaksville, North Carolina, and Fieldale, Virginia, nearly all of which were occupied by the Company's employes, were sold to a responsible outside interest, which in turn sold these properties to the employes at prices below the going market and on liberal terms. The Company's action in this matter was governed by the growing conviction that it was unsound for it to continue both as employer and landlord.

There were no material changes during the year in our methods of distribution, but a larger proportion of our goods was sold to retail outlets.

Capital expenditures in amounts considerably greater than normal were made during the year, to extend and improve the Manufacturing Division's properties. A new dye house was erected, and a substantial addition was made to the towel mill. In addition a considerable quantity of modern machinery was ordered and partially installed, which will have the effect in time of increasing our efficiency and improving our competitive position within the industry.

REAL ESTATE DIVISION

The Real Estate Division consists of The Merchandise Mart, the Annex Office Building at Wabash and Washington Streets, Chicago, and several small miscellaneous properties.

The Merchandise Mart experienced its most successful year to date. The average occupancy during 1941 was approximately 93%, including space under temporary lease and space occupied by the offices of the building, which space has been excluded in former occupancy reports. Despite somewhat decreased space usage by the Company and by Governmental agencies during the year, the increased areas utilized by other tenants for merchandise display and office purposes, together with higher average rental rates, resulted in greater total income being received. While expenses also advanced, the Mart's operating profit was the highest for any year to date.

About 150,000 square feet of space were leased during the year to new and to present tenants, and approximately 200 leases which expired during the year were also renewed on a satisfactory basis. At the year end the Mart housed a total of 764 tenants and had an estimated working population of over 27,000 persons.

Buying traffic was heavy during the year, and former market attendance records were surpassed. Over 35,000 retail buyers were registered at market events, an increase of nearly 10% over the previous year. This increase includes the attendance at two additional women's apparel markets sponsored by the Mart during the year, in recognition of its increased prominence in this field. Retail buying visits, exclusive of markets, were estimated to exceed 377,000, an increase of over 12% from 1940 levels.

Maintenance and improvements were carried out on a scale which we believe preserved the Mart's physical facilities on a basis comparable to those of any modern structure. Among other things, three new public corridors were constructed, major improvements were effected on the east entrance, and several air conditioning installations were completed.

The Annex Office Building, which also houses The Store for Men, likewise operated profitably, and had an average occupancy for the year of about 91%. During the year a small property formerly used as a garage was sold. Since the year end negotiations have been undertaken to terminate the Company's obligations with respect to certain leases on properties not used in the business. If successfully consummated, the losses incurred in the future operation of such properties, which are charged to a reserve, will be considerably reduced.

BALANCE SHEET

The Company's financial position has been further strengthened during the year.

Cash and equivalent items increased by $793,639 to $8,739,368 at December 31, 1941, an amount regarded as entirely adequate for the Company's present needs. Inventories increased by $3,253,615 to $17,003,536, and accounts receivable increased by $1,595,223 to $12,592,176, both increases being in line with the greater volume of business done in 1941 and in prospect for the near future. The reserve for doubtful accounts was increased by $200,085, to provide for the higher loss ratio inherent in the larger accounts receivable balances. Very favorable collection rates were experienced in all divisions throughout the year.

The Company's working capital increased moderately, and at the year end amounted to $22,134,916. The ratio of current assets to current liabilities declined from 3.4 to 1 to about 2.4 to 1 during the period, principally because of increased current liabilities resulting from substantially higher Federal tax provisions, increased trade accounts payable, and larger current funded debt maturities. Such decline in the current ratio is normal under present business conditions.

Fixed asset accounts declined $459,744 during the year, representing the excess of the provision for depreciation of $2,379,110, and of various retirements and sales of fixed assets, over expenditures made for capital additions.

Funded debt was reduced by $1,250,000 during 1941, and at the year end $27,100,000 was outstanding, $1,450,000 of which matures during 1942. Of such debt reduction, $250,000 was due to the Company's exercise of an optional sinking fund provision.

At the year end the reserve for losses on subleases of $650,458 and the reserve for contingent prior years' taxes of $600,000 were considered sufficient for these purposes. Losses sustained in the operation of subleased properties not used nor needed in the business, amounting to $108,904, were charged to the former reserve during the year, while a net charge of $25,103 was made to the latter reserve to reflect the termination of the Company's liability with respect to certain disputed tax items. In addition $560,044 of this reserve was transferred to the corresponding item under current liabilities. In the last half of the year, a reserve of $800,000 was provided from current earnings for possible future decline in the market values of inventories.

There were no changes in capital stock accounts nor in paid-in surplus during the year, but earned surplus was increased by $1,064,674 to $11,839,113. At the year end the net asset value per preferred share was $358.83, and per Common Share was $19.97.

OTHER FINANCIAL MATTERS

Our tax bill has increased enormously in recent years, and with the present and projected rate of national defense expenditures will undoubtedly continue to be very high for an indefinite period.

Total tax expense for 1941 amounted to $9,806,604, as compared to $6,007,964 for 1940, $5,183,811 for 1939 and $4,099,652 for 1938. Taxes were equivalent for last year to 179% of our net profit after taxes, to $65.38 per preferred share, to $5.05 per Common Share, to almost 9 cents per dollar of merchandise sales and real estate income and to 18 cents per dollar of net worth.

Federal income and excess profits tax accruals for 1941 amounted to $5,390,000, as compared to $1,680,000 for 1940, $950,000 for 1939 and $150,000 for 1938. Of the amount so accrued for 1941, the sum of $3,060,000 represented the portion allocable to excess-profits taxes. The Company is using the "invested capital" method of computing such tax liability, and under the Revenue Act of 1941 is claiming an excess-profits net income exemption of approximately $5,850,000.

Dividends paid during 1941 totaled $3,426,892, the same as in the previous year. Of this amount, $900,000 covered dividends on both series of preferred shares, while the remainder, $2,526,892, covered disbursements totaling $1.30 on each Common Share outstanding during the year. In the latter connection a quarterly dividend of 10 cents per Common Share was paid on January 31, quarterly dividends of 20 cents were paid on the last days of April, July and October, and a year-end dividend of 60 cents was paid on December 29.

No short-term borrowing was required to finance the Company's operations during the year, and none appears to be necessary in the immediate future.

Total capital expenditures for 1941 were $2,309,768, as compared to $1,668,054 in 1940. Such expenditures will probably be considerably reduced in amount in the current year.

The number of holders of the Company's shares continued to increase, and at the year end over 11,000 shareholders were listed on the Company's books, an increase of about 20% over the number a year earlier. This increase was in part the result of the public offering in November 1941, of 135,000 of the Company's Common Shares by certain shareholders, at whose request and expense the Company filed a registration statement and related documents with the Securities and Exchange Commission.

THE WAR

Your Company has pledged its entire resources to the winning of the war, and is prepared to cooperate in every possible way with the military and civil authorities toward that end.

At the year end, 607 of the Company's employes were in active service with the armed forces of the United States and its Allies. Others were serving in various non-combatant capacities, and a large additional number are prepared to enter service as called. Our policies governing employes in peacetime military service have been amended and extended to apply to war conditions. We believe them to be liberal in scope and of considerable benefit to the employes affected.

While the Company's direct production of defense materials is proportionately lower than that of many corporations, due to the nature of its business, Government orders accounted for about 11% of the mills' total orders during 1941. Items manufactured for the Government included blankets, woolen fabrics, sheets, towels and netting. A vigorous effort is being made to adapt certain mills to the production of other items suitable to defense purposes, and to give effect to the changes in operations which this will entail.

War policy committees have been formed within the Company for the purpose of considering the innumerable problems created by war conditions—problems involving personnel relationships, civilian defense measures, changed operating procedures, public relation matters, and the participation in organized war efforts.

The Company has purchased its legal quota of Defense Savings Bonds for 1941 and 1942, and has been a leader in selling Defense Savings Bonds and Stamps to its employes and customers. It is aiding official and civilian efforts to organize, and is effectively participating in, a wide variety of war activities. It has contributed generously to various war relief funds and will continue to do so.

PERSONNEL

We record with deep sorrow the death in August 1941, of Mr. Charles H. Schweppe, who had served as a member of the Board of Directors for twelve years. Mr. Charles Y. Freeman will be nominated at the annual meeting of shareholders on April 10, 1942, to fill this vacancy.

At the Board of Directors' meeting following the annual shareholders' meeting on April 4, 1941, Mr. James L. Palmer, Vice-President of the Company, was also appointed to the office of Comptroller; Mr. Wilbur C. Munnecke, Vice-President in charge of the Manufacturing Division, was appointed General Operating Manager of the Chicago and Suburban Retail Stores; and Mr. Luther H. Hodges was given added responsibilities in the operation of the Manufacturing Division. While there were no other major changes nor transfers of responsibility during the year, a number of promotions and adjustments of function were made. In accordance with our traditional policy, such changes and promotions were made from within our own organization. In this connection, it is interesting to note that 10 additional employes completed fifty years of service with the Company during 1941, making a total of 163 such service records during the Company's existence.

The Company made salary and wage increases during the year which affected a very large proportion of its employes. Such pay increases, in the aggregate, amounted to a substantial percentage of its payroll costs, and coupled with the payroll increases occasioned by the larger number of employes required to handle the increased volume of business, resulted in a very substantial increase in total payments for employes' services.

Collective bargaining agreements expired during the year with various unions representing certain of the employes in our Seattle store and in The Merchandise Mart, and representing employes of all but two of the Manufacturing Division's mills. These contracts were renewed prior to the year end except the ones applicable to the Manufacturing Division, which have been renewed this year with certain changes ordered by the War Labor Board.

In the Chicago store, elections were held by the National Labor Relations Board among certain groups of non-selling employes. In one such group, embracing less than 150 employes, a union has been certified as the collective bargaining representative, and negotiations looking toward an agreement are in process. Certain other unions have recently been certified as collective bargaining representatives of other groups comprising less than 400 non-selling employes. No bargaining negotiations have as yet been initiated with these unions.

GENERAL

At no time in the Company's history has it faced more numerous and more difficult problems. Shareholders are no doubt well acquainted with the nature of many of them because of their widespread application to all forms of business. Many of these problems are new in nature and cannot be solved on the basis of past experience.

Because of war necessities a determined effort is being made to curtail consumer purchasing power and the available supply of consumers goods. Purchasing power is being restricted by higher taxes, by higher prices, and by the purchase of Government securities from savings and current income. In addition the currently discussed plans for withholding income at source and for involuntary savings may soon be enacted into law. The supply of consumers goods will become increasingly limited as priorities and allocations of essential raw materials are imposed with far greater severity than we have yet experienced. Innumerable consumers articles made of materials other than the presently scarce metals, rubber and wool will be affected in varying degrees.

The extent to which the effects of such economic controls will be felt by our business are indeterminable, and the time element in their application can only be conjectured about at present. Consumer consciousness of these factors is aptly illustrated by an unusually large amount of anticipatory buying, particularly since our country became an active belligerent in early December. With other responsible distributors, we advocate that our customers purchase only their normal requirements.

We have successfully met similar problems of merchandise and raw material supply in past war periods. The present situation, while far greater in the scope of its implications than anything previously known, does not discourage us from a competitive standpoint, as all retailers and textile manufacturers will be faced with a common dilemma.

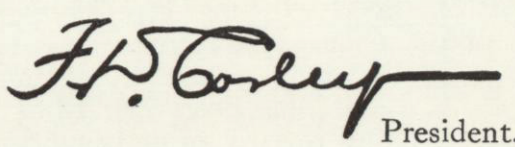
We have already commented on the tax situation, and indicated our expectancy of continued high tax rates for an indefinite period ahead, although the Company's total tax bill will tend to fluctuate with its earnings before taxes.

The Company's situation regarding labor supply is also worthy of comment. Many employes have entered military service and many more are subject to call. Others, including some in key positions, are subject to Government requisition in non-belligerent capacities. Replacement of these experienced employes will become progressively more difficult. We are employing women as substitutes wherever possible.

We will continue to meet new problems and changed conditions as they develop and to the best of our ability, in such manner as to serve the best interests of our nation, our shareholders, our employes, and our customers.

We sincerely appreciate the loyalty, hard work and resourcefulness of our fine organization during the difficult year just past, and are confident of our ability to meet future problems with credit to our traditions. We again solicit constructive suggestions from our shareholders so that our methods and results may reflect continued improvement.

By order of the Board of Directors,

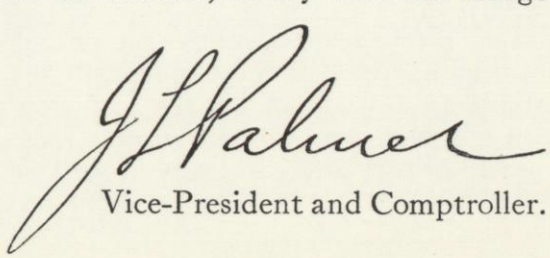


President.

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.

March 5, 1942.



Vice-President and Comptroller.

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1941, and the statements of profit and loss, surplus and reserves for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss, surplus and reserves present fairly the position of Marshall Field & Company at December 31, 1941, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
March 2, 1942.

Statement of Profit and Loss
For the Year Ended December 31, 1941

PROFIT FROM RETAIL AND MANUFACTURING OPERATIONS:		
Net sales to customers	$104,776,741	
Cost of sales and operating expenses	93,514,195	$11,262,546
PROFIT FROM REAL ESTATE OPERATIONS:		
Rental income from tenants	$ 2,953,252	
Operating expenses, less rentals charged to Retail and Manufacturing Divisions	2,413,473	539,779
Profit from operations before interest charges, etc.		$11,802,325
INTEREST CHARGES ON FUNDED DEBT:		
First Mortgage Serial Bonds	$ 425,833	
First Mortgage Twenty-Year Sinking Fund Bonds	500,550	926,383
Profit before Federal income taxes		$10,875,942
PROVISION FOR FEDERAL INCOME TAXES:		
Normal tax and surtax	$ 2,330,000	
Excess profits tax	3,060,000	5,390,000
NET PROFIT FOR THE YEAR		$ 5,485,942
PROVISION FOR POSSIBLE FUTURE DECLINE IN MARKET VALUE OF INVENTORIES		800,000
Balance transferred to earned surplus		$ 4,685,942

NOTES:
(1) Provisions for depreciation of buildings and equipment and amortization of leaseholds, included in cost of sales and operating expenses, amount to $2,368,467.
(2) Provisions for taxes other than Federal income taxes, included in cost of sales and operating expenses, amount to $4,416,604.

BALANCE SHEET-

ASSETS

CURRENT ASSETS:			
Cash		$ 4,689,418	
Short-term United States Treasury obligations, at cost		4,049,950	
Receivables—			
Accounts receivable from customers	$13,095,080		
Rents, claims and miscellaneous receivables	301,436		
	$13,396,516		
LESS—Reserve for doubtful accounts, etc.	804,340	12,592,176	
Merchandise inventories, priced at the lower of cost or market (see note)—			
Retail Division merchandise	$11,305,787		
Manufacturing Division merchandise, including $3,734,682 of raw materials and work in process	5,697,749	17,003,536	
TOTAL CURRENT ASSETS			$38,335,080
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC.			1,170,373
INVESTMENT SECURITIES, RECEIVABLES, ETC.:			
Securities and cash deposited under construction agreements		$ 155,387	
Miscellaneous investments, receivables, etc.		279,535	434,922

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties, etc.—				
Land	$16,222,954	$ —	$16,222,954	
Leaseholds	731,846	102,167	629,679	
Buildings and building equipment	21,740,562	10,511,280	11,229,282	
Equipment	13,324,538	7,065,689	6,258,849	
Merchandise Mart—				
Air rights and land	2,907,462	—	2,907,462	
Building and equipment	28,263,137	7,725,910	20,537,227	
TOTAL FIXED ASSETS	$83,190,499	$25,405,046	$57,785,453	57,785,453
GOODWILL, TRADE-MARKS, ETC.				1
				$97,725,829

NOTE: Substantially all of the Retail Division inventories are priced at the lower of cost or market through the reduction, by departments, of total retail inventory values by application of mark-up ratios.

The Manufacturing Division inventories are priced by individual items at the lower of cost or market. In general, cost prices represent purchase costs of specific identified lots for raw materials (lower than

DECEMBER 31, 1941

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade creditors	$3,372,767		
Sundry accounts payable	486,493		
Dividend payable on Common Shares	388,753	$ 4,248,013	
Accruals—			
Salaries and wages	$1,432,291		
Local and miscellaneous taxes	2,702,671		
Interest on funded debt	271,500		
Other accrued expenses	140,465		
Federal income and excess profits taxes	5,955,224	10,502,151	
Current sinking fund requirements and serial bond maturities		1,450,000	
TOTAL CURRENT LIABILITIES			$16,200,164
FUNDED DEBT:			
First Mortgage Serial Bonds—			
Series One and Series Two, 3%, maturing $500,000 semi-annually from May 1, 1942 to May 1, 1955, inclusive; current maturities of $1,000,000 included in current liabilities		$12,500,000	
First Mortgage Twenty-Year Sinking Fund Bonds, 3.6%, semi-annual sinking fund payments required from February 1, 1942 to February 1, 1959; current requirement of $450,000 included in current liabilities		13,150,000	25,650,000
RESERVES:			
For loss on subleases		$ 650,458	
For contingent prior years' taxes		600,000	
For possible future decline in market value of inventories		800,000	2,050,458
CAPITAL STOCK AND SURPLUS:			
Preferred shares—			
6% Cumulative Preferred Shares, of $100 par value; redeemable at $110 per share and accrued dividends; convertible until January 1, 1947 at the rate of 3.2608 Common Shares for each preferred share—			
Authorized and outstanding 95,508 shares	$9,550,800		
6% Cumulative Preferred Shares, Second Series, of $100 par value; redeemable at $105 per share and accrued dividends; convertible until January 1, 1952 at the rate of 3 1/2 Common Shares for each preferred share—			
Authorized and outstanding 54,492 shares	5,449,200	$15,000,000	
Common Shares—			
Authorized 4,000,000 shares of no par value, of which 502,154 shares are reserved for conversion of preferred shares; and of which 180,000 shares may be sold to officers or employees without first offering such shares to the shareholders.			
Issued and outstanding 1,943,763 shares, at stated value		16,818,815	
Paid-in surplus		10,167,279	
Earned surplus		11,839,113	53,825,207
			$97,725,829

(Note continued)

current costs) and substantially the average of recent manufacturing costs for work in process and finished goods. Market prices are considered to be the lower of replacement costs or selling prices less allowance for selling expenses.

Statements of Surplus and Reserves

For the Year Ended December 31, 1941

Earned Surplus

Balance at December 31, 1940		$10,774,439
Net Profit for the Year, less provision of $800,000 for possible future decline in market value of inventories		4,685,942
		$15,460,381
Deduct—		
Cash dividends declared on—		
6% Cumulative Preferred Shares ($6.00 per share)	$ 573,048	
6% Cumulative Preferred Shares, Second Series ($6.00 per share)	326,952	
Common Shares ($1.40* per share)	2,721,268	3,621,268
Balance at December 31, 1941		$11,839,113

*Represents dividends declared; dividends paid during 1941 on Common Shares amounted to $1.30 per share.

Paid-In Surplus

Balance at December 31, 1940 and 1941	$10,167,279

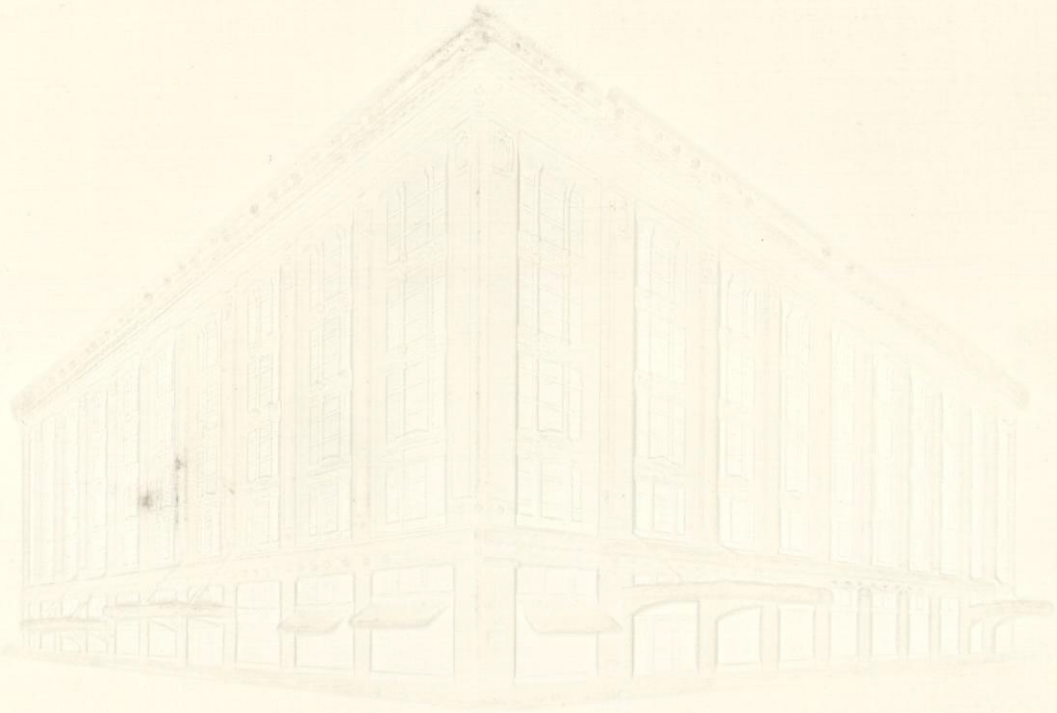
Reserve for Loss on Subleases

Balance at December 31, 1940	$ 759,362
Excess of rentals, taxes, insurance, etc. paid on subleased properties during 1941 over rentals received	108,904
Balance at December 31, 1941	$ 650,458

Reserve for Contingent Prior Years' Taxes

Balance at December 31, 1940		$ 1,134,569
Refunds on prior years' taxes		50,578
Total		$ 1,185,147
Deduct—		
Transferred to current liabilities	$ 560,044	
Payments applicable to taxes of prior years	25,103	585,147
Balance at December 31, 1941		$ 600,000

THE FREDERICK & NELSON STORE
SEATTLE, WASHINGTON



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